Conference on “Financial Inclusion: Macroeconomic and Regulatory Challenges”

Panel 1: Financial Inclusion and Macroeconomic Policies


Photo credit: Sudipto Das

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with inputs from MCM, SPR, STA, ICD, FAD, WHD, AFR, MCD, and other IMF colleagues and external collaborators

Macroeconomic dimensions of financial inclusion

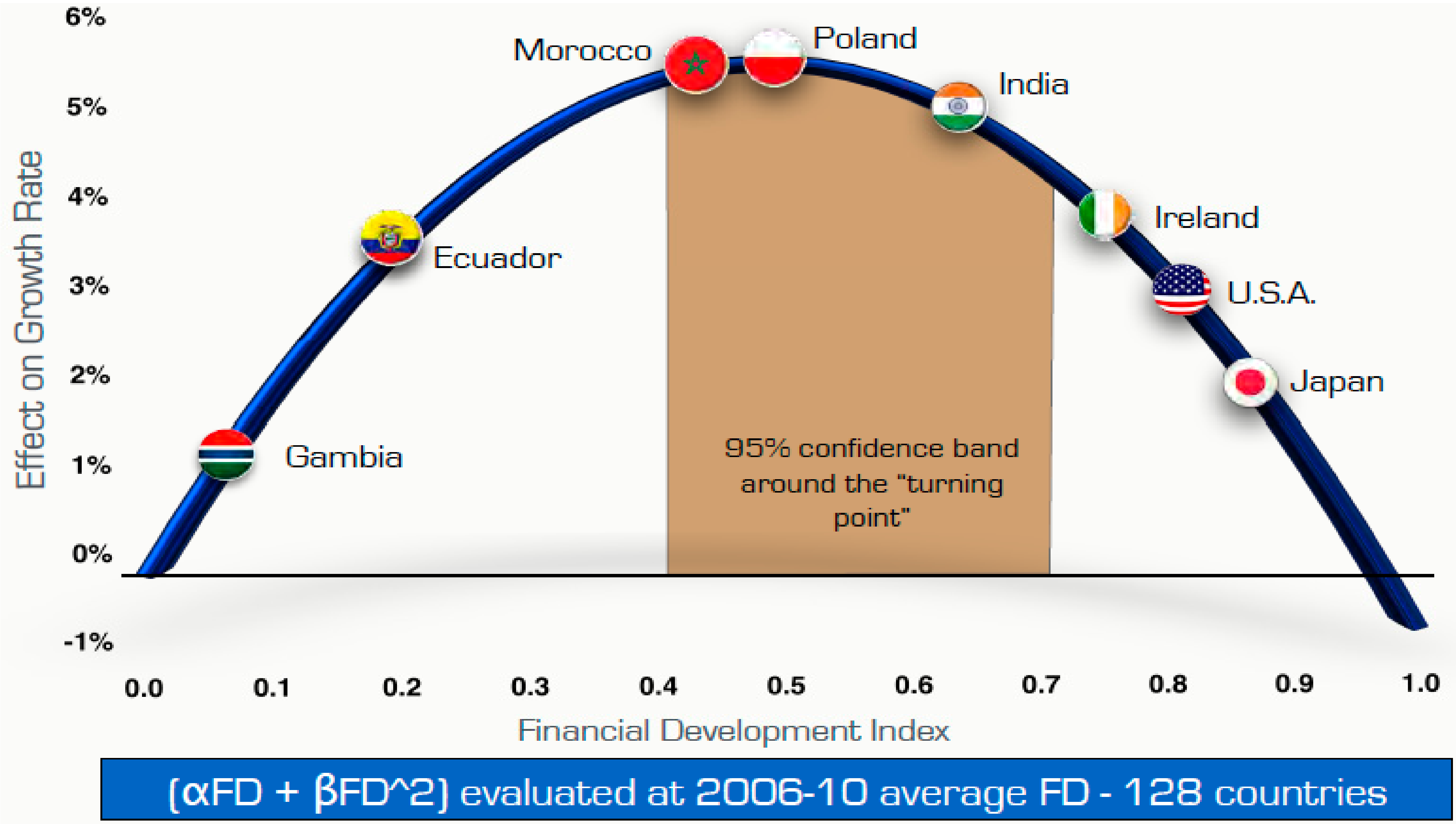
Growth

Stability

Financial systems:
depth, efficiency,
inclusion

Inequality

Recent empirical evidence: financial *deepening* helps growth, up to a point



Source: IMF Staff Discussion Note 15/08

Financial inclusion: a multifaceted concept

"Access to and use of formal financial services"

Financial institution access index

ATMs and commercial bank branches per 100,000 adults

Data: IMF SDN 15/08 index based on Financial Access Survey time series

Users of financial services

Accounts, including savings & mobile (adults, firms, women)

Credit through financial institutions (by purposes, firms, adults, women)

Wages & transfers through accounts (adults, women, income)

Insurance

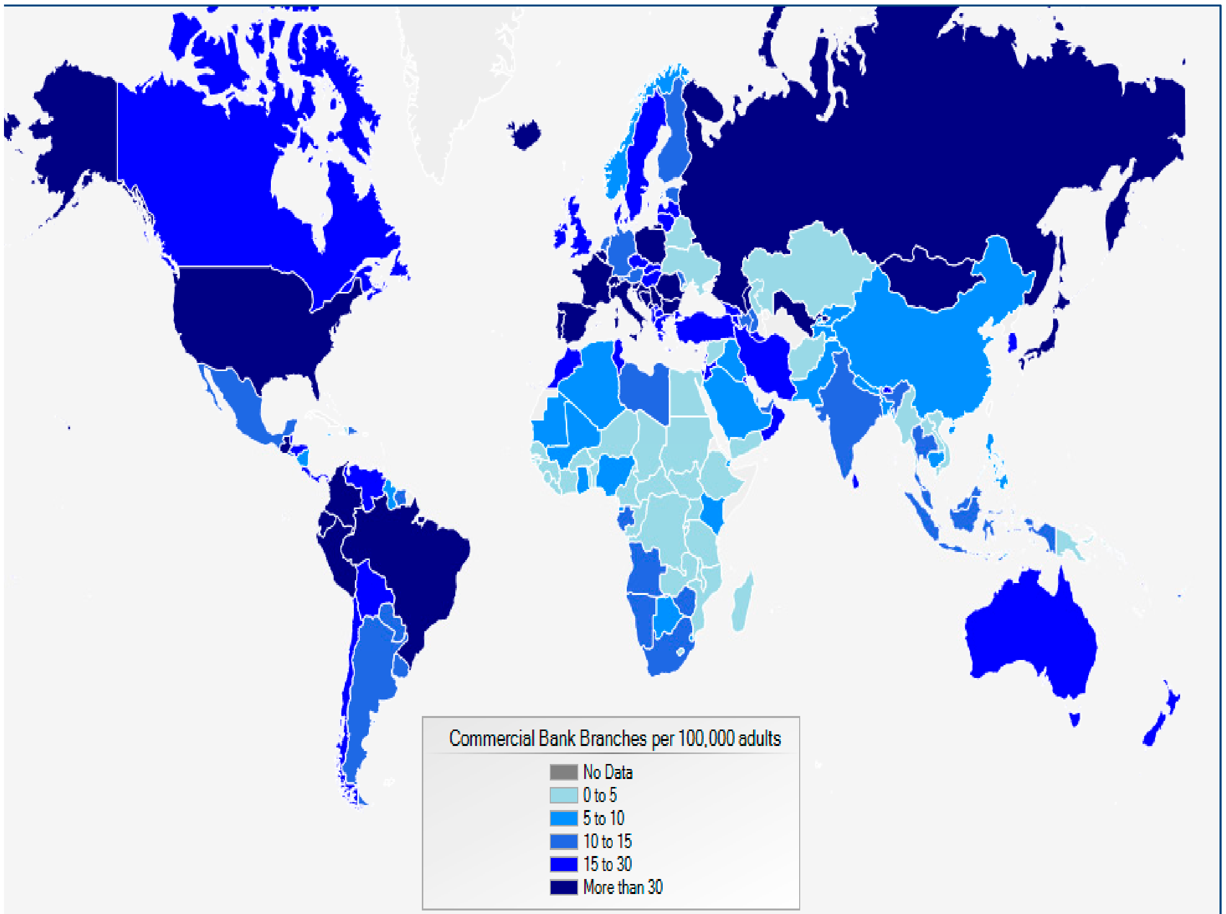
Data: Financial Access Survey 2004-13 (IMF); Global Findex 2011 and 2014 (World Bank); Enterprise Surveys (World Bank)

Source: IMF Staff Discussion Note 15/08

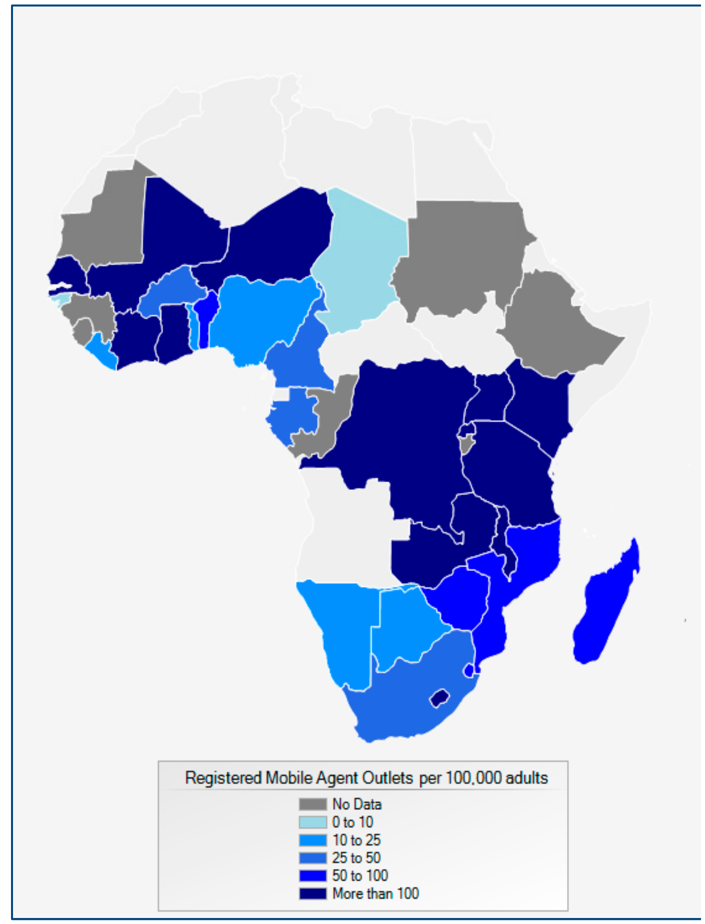
Source: IMF Staff Discussion Note 15/17

IMF's Financial Access Survey: leapfrogging via digital access

Traditional access

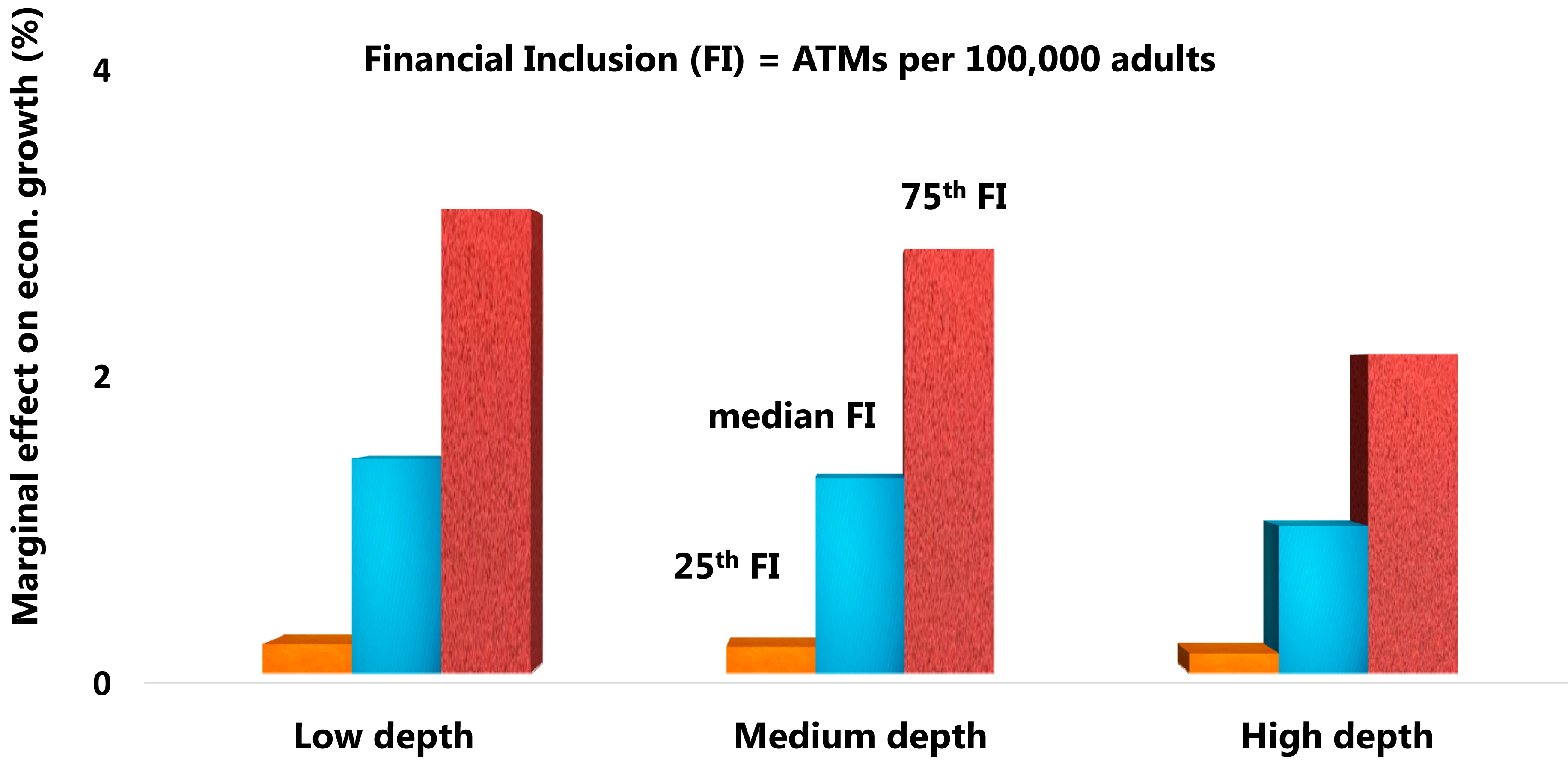


Digital access



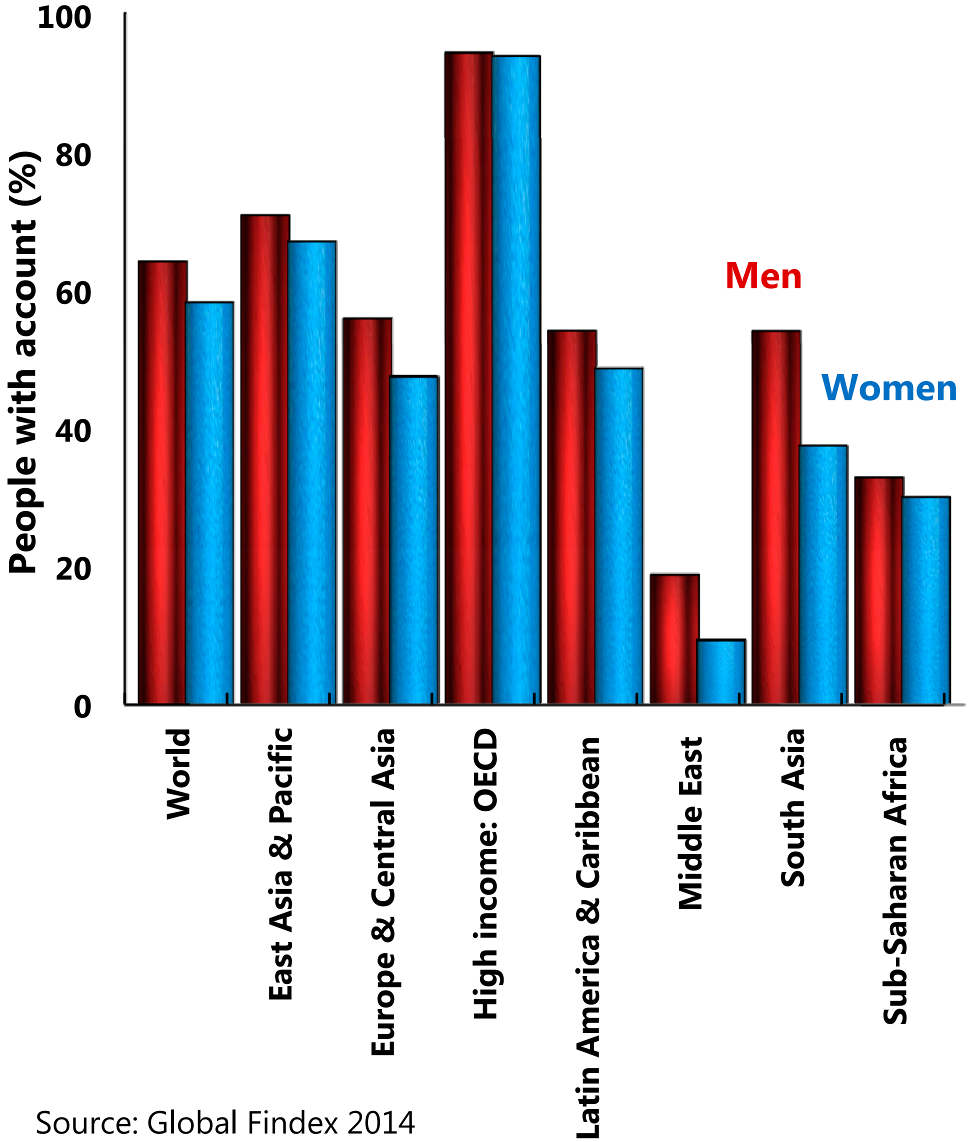
Source: Financial Access Survey (IMF/STA, with support from the Netherlands, the Gates Foundation, and the Australian Agency for International Development, and inputs from country authorities)

Financial inclusion: positive effect on growth, although decreasing with financial depth

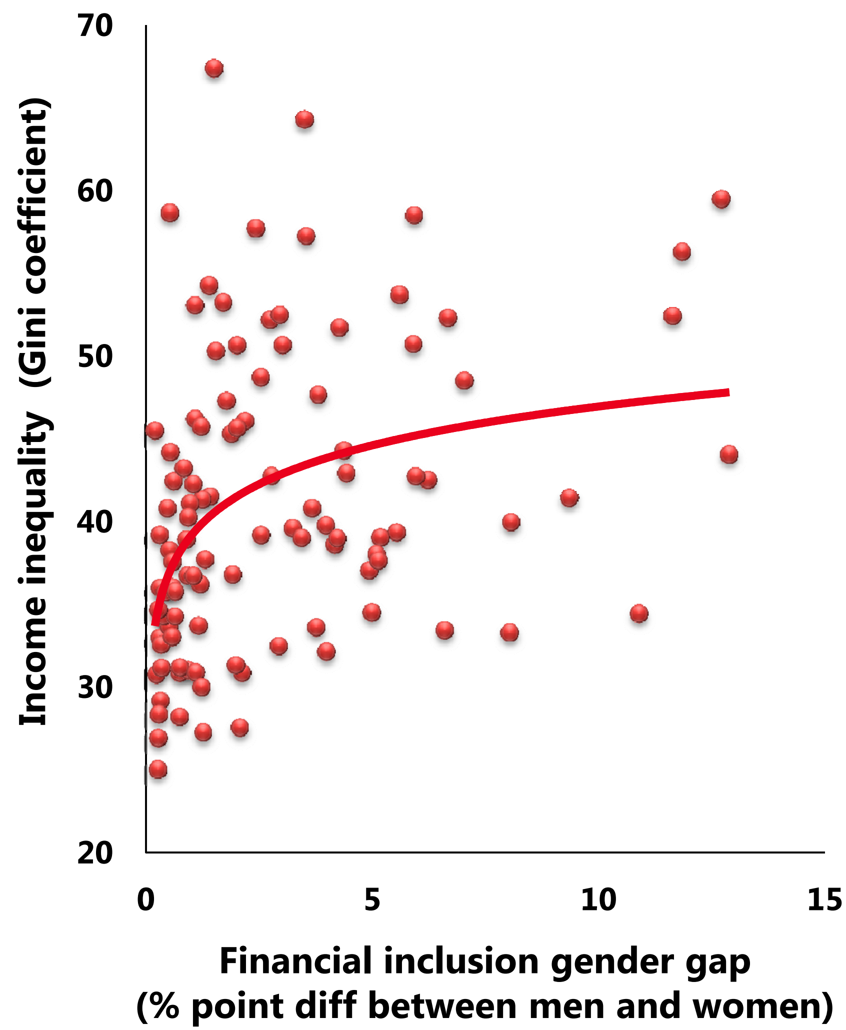


Source: IMF Staff Discussion Note 15/17

Financial inclusion: persistent gender gaps; possible links with inequality

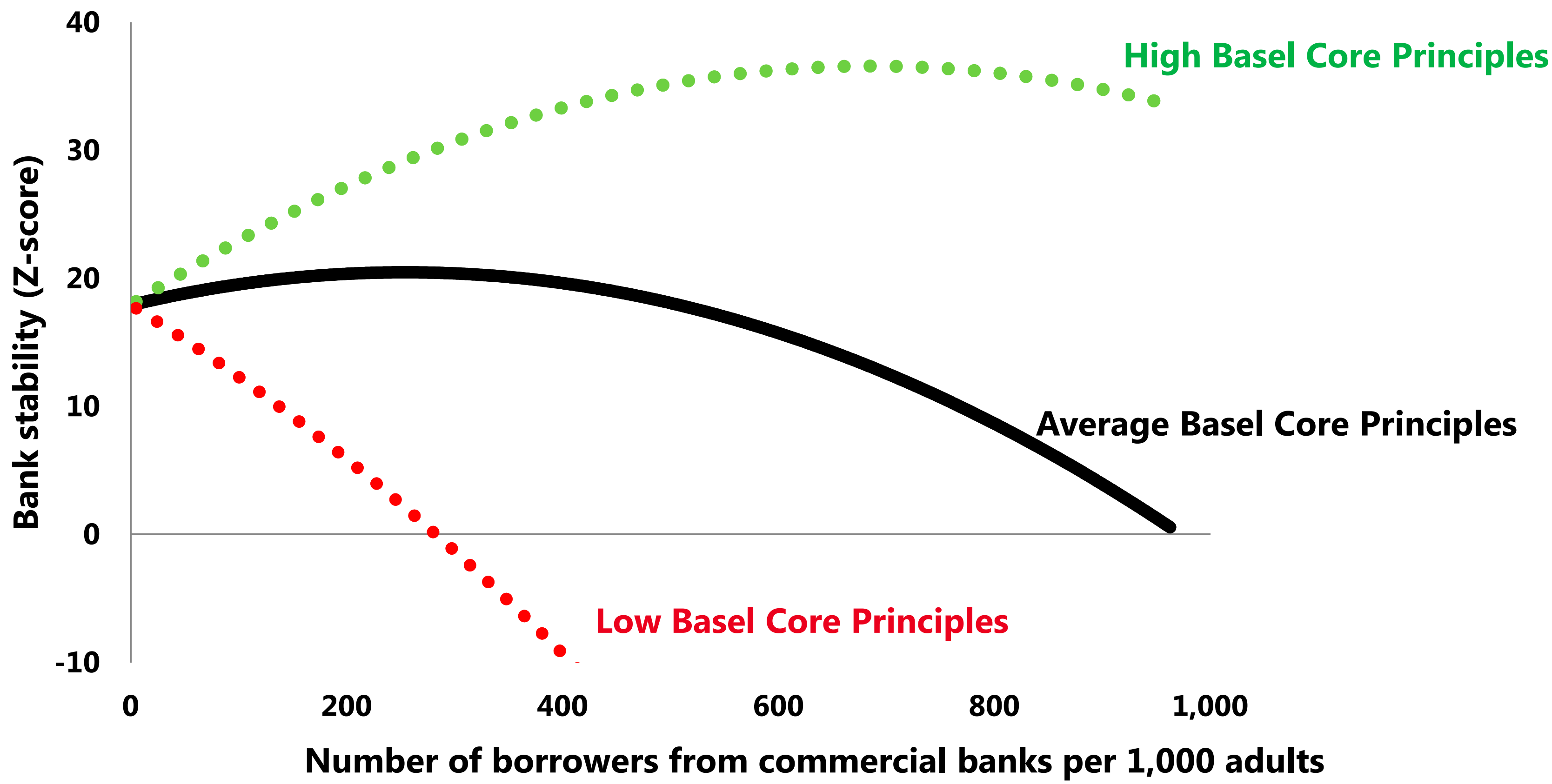


Source: Global Findex 2014



Source: IMF Staff Discussion Note 15/17

Financial stability: risks with broadening credit access rise as supervisory quality falls…



… but broader use of other financial services does not seem to hurt stability

Source: IMF Staff Discussion Note 15/17

Financial Inclusion Drives GDP Growth

IMF-MIT study of SMEs in 6 countries provides path for policy makers to promote inclusive economic growth by leveraging 3 dimensions of financial inclusion

Greater Financial Inclusion Impacts GDP Growth and Inequality Through Two Channels

1. Smarter capital allocation to SMEs, causing higher GDP and initially higher inequality
2. More efficient financial contracts, causing higher GDP and lower inequality

1 Access to Credit

Determined by:

- Fees
- Transaction Costs
- Documentation Requirements

GDP Rise from 1% Increase in Credit/Investment Ratio Due to More Access

Uganda	.39%
Malaysia	.43%
Kenya	.63%
Philippines	.29%
Mozambique	.39%
Egypt	.19%

Inequality Impact: More access to credit leads to more capital for SMEs and higher worker wages, thus reducing income inequality

2 Depth of Credit

Determined by:

- Collateral Requirements/ Borrowing Costs

GDP Rise from 1% Increase in Credit/Investment Ratio Due to More Depth

Uganda	.35%
Kenya	.47%
Mozambique	.51%
Malaysia	.51%
Philippines	.26%
Egypt	.46%

Interaction Effect: Relaxing borrowing costs is less effective if intermediation costs are high

Inequality Impact: Greater credit depth initially helps more productive firms and thus can take longer to reduce income inequality

3 Credit Intermediation Efficiency

Determined by:

- Interest Rate Spreads & Fees
- Monitoring Costs for Banks

GDP Rise from 1% Increase in Credit/Investment Ratio Due to More Efficient Intermediation

Uganda	.12%
Malaysia	.86%
Kenya	1.17%
Philippines	.41%
Mozambique	.60%
Egypt	.42%

Interaction Impact: Reducing intermediation costs amplifies positive effects of lower borrowing costs

Inequality Impact: More efficient intermediation drives more borrowing but also helps highly leveraged firms, thus slightly reducing income inequality

Multi-dimensional Path to Financial Inclusion

To develop tailored policies, it is essential to first understand the country-specific factors constraining financial inclusion

MasterCard

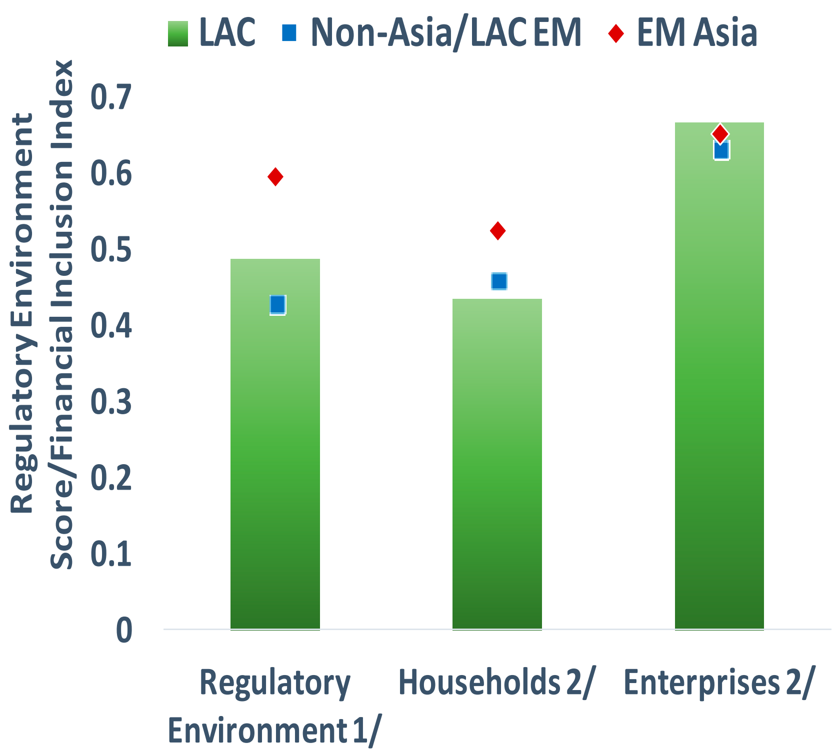
MasterCard Center for Inclusive Growth

Massachusetts Institute of Technology

IMF Working Paper WP/15/22, "Identifying Constraints to Financial Inclusion and Their Impact on GDP and Inequality: A Structural Framework for Policy", Era Dabla-Norris, Yan Ji, Robert Townsend, and D. Filiz Unsal. January 2015.

Zooming in on: Latin America

Household inclusion lags behind



Growth-inequality trade-off should guide policy choices 2/

- Reducing *collateral requirements* boosts growth sharply, materially raises inequality
- Reducing *interest rate spreads* boosts growth and raises inequality; impacts are smaller
- Reducing *entry costs* (e.g. documentation requirements) reduces inequality sharply, only modestly boosts growth

Sources: 1/ EIU: "Global Microscope 2014: The Enabling Environment for Financial Inclusion"
2/ IMF WP 15/206 "Financial Inclusion: Zooming in on Latin America"

Examples of other regional work: IMF's October 2014 *Regional Economic Outlook for Middle East and Central Asia* (Annex III), IMF WP 15/190 "Systemic Risk Assessment in Low Income Countries: Balancing Financial Stability and Development"
IMF's African Department Paper "Evolving Banking Trends in Sub-Saharan Africa"

Preliminary conclusions, topics for discussion

Benefits to growth

- Firms' access, women's access, low income access, accounts, ATMs, credit: all show benefits
- Persistent gaps need addressing: helps growth and equity
- Benefits decline at high levels of access and depth

Trade-offs/synergies w stability

- Broadening access to credit helps **(hurts)** stability
  if supervision is strong **(weak)**
- Payments, savings, insurance: no significant trade-offs
- Still need more data, evidence!

Range of policy interventions

- Develop legal, regulatory, and institutional frameworks
- Improve collateral frameworks
- Facilitate access to borrower info
- Enhance bank, nonbank penetration

Overall policy design

- Multi-dimensional path to financial inclusion
- No "one-size-fits-all": constraints and drivers vary
- Policy makers: remain mindful of tradeoffs and synergies!